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Financial Markets

Irving Trust

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Thursday July 3, 1980

Today, the Federal Reserve Board did the expected by scrapping the special Credit Restraint Program introduced March 14. The program clearly was serving no useful economic purpose if in fact it ever did. Specifically, the Board terminated (1) the 5% reserve requirement on "managed liabilities" effective July 10; (2) the 2% supplementary reserve requirement on large time deposits of member banks effective July 10; (3) the 7 1/2% special deposit required against growth of certain forms of consumer credit effective July 23; and (4) the 5% special deposit required against growth of money market funds effective July 28. The "voluntary" 6%-9% guideline on loan growth of banks and finance companies will be phased out. To say the least, the program dies unmourned.

Otherwise, the holiday-shortened week was beset by a variety of special factors. On Wednesday, the Treasury offered a particularly indigestible 14-year, 10-month bond. Many dealers were apprehensive about the risk involved in positioning the always hard-to-place issue over the weekend. In this setting, it was not surprising that a 10.42% rate was set on the issue, well above rates on maturities to either side of 15 years.

The funds market was under pressure on Monday due to the traditional statement-day window-dressing engaged in by many commercial banks. Despite the Fed's temporary injection of reserves, the effective funds rate for the day came in at 10.44%, well above the 9%+ rate on other days in the week--such is the price of window dressing! In general, during the statement week ended Wednesday, the Fed was able to go about its seasonal reserve-adding task in an apparently almost leisurely fashion--unlike earlier weeks, nothing in the market's trading pattern aroused the Fed's ire. The immediate prospect is for more of the same--unless the Fed should decide to move to a more expansive policy in the statement week beginning Thursday, July 10.

To assess that possibility, greater than usual attention will be focused on the money stock data--release of which will be postponed to Monday due to the July 4 holiday--to see if the large uptick reported the week before begins to be washed out. Then on Wednesday, the FOMC meets, and the following two days should provide an indication of whether the Committee decided to move toward a more expansive policy.

Too much encouragement should not be gleaned from the termination of the Credit Restraint Program, which was largely a symbolic--though much appreciated!--gesture. In particular, in its announcement the Board stated that its goals of restraining the growth of money and credit aggregates were unchanged. Unless the recent rapid growth of M1B should falter or reverse itself soon, the best bet is that the FOMC will not ease its policy at the July 9 meeting, but will defer action for a few more weeks.

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Market Yields

	7/3/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	12.00%	12.00%	11.50%
Effective since	6/13/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	9.50
Federal Funds	9.38	9.38	10.25
Repurchase Agreements	8.25	8.00	9.80
U.S. Treasury Issues			
Bills			
3 months	7.96	7.75	9.55
6 months	7.89	8.08	9.70
1 year	7.89	8.35	9.52
Coupons			
2 years	8.21	8.90	9.05
4 years	9.32	9.22	8.80
7 years	9.68	9.40	8.70
10 years	10.10	9.82	8.85
Long Bond	10.00	9.93	8.85
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.50	8.75	9.95
3 months	8.60	8.75	9.95
6 months	8.60	8.80	10.05
1 year	9.00	N.A.	10.00
Banker's Acceptances			
1 month	8.80	8.75	9.93
3 months	8.75	8.70	9.95
6 months	8.60	8.80	10.05
Eurodollar Deposits			
1 month	9.25	9.19	10.56
2 months	9.31	9.25	10.63
3 months	9.38	9.44	10.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	6.00	8.25	10.00
1 month	8.25	8.00	9.75
3 months	8.00	7.75	9.38
Bank Holding Companies			
1 month	8.50	8.00	9.75
Dealer Placed:			
3 months	8.38	8.25	9.65
New AA Corporate Utility Bond	11.75	11.50	9.65
Tax Exempt			
6 month Project Notes	4.35	4.50	4.60
1 year AAA Bond	5.00	4.60	N.A.
5 year AAA Bond	5.50	5.15	N.A.
20 year AAA Bond	7.10	6.90	5.70

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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